



IOWA GENERAL ASSEMBLY
LEGISLATIVE SERVICES AGENCY

DENNIS C. PROUTY, DIRECTOR
 IOWA STATE CAPITOL
 DES MOINES, IA 50319
 515.281.3566
 Fax: 515.281.8027
dennis.prouty@legis.state.ia.us

DIVISIONS

LEGAL SERVICES
 RICHARD L. JOHNSON

FISCAL SERVICES
 HOLLY M. LYONS

COMPUTER SERVICES
 GLEN P. DICKINSON

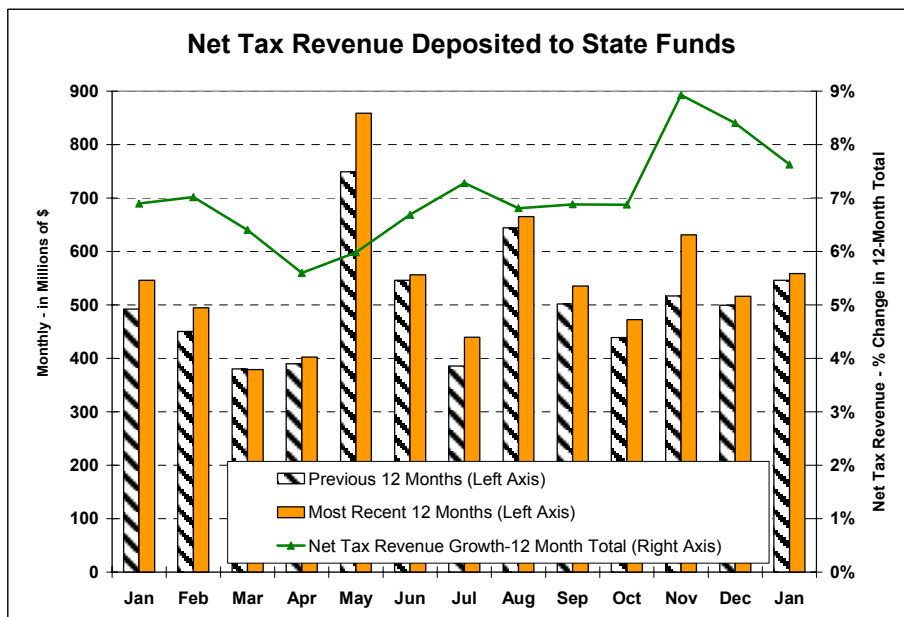
ADMINISTRATIVE SERVICES
 TIMOTHY C. FALLER

MEMORANDUM

TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives
 FROM: Jeff Robinson
 Shawn Snyder
 DATE: February 26, 2008

Twelve-month Total Net Tax Receipts Through January 31, 2008

The attached spreadsheet presents net State tax receipts for the 12-month period ending January 2008 with comparisons to the previous 12 months. January 2007 to January 2008 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those tax receipts.



Month of January Comparison

January net tax receipts totaled \$558.0 million, an increase of \$11.7 million (2.1%) compared to January 2007. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$15.6 million, 5.3%) – Gross receipts were up \$19.4 million while Income Tax refunds increased \$3.8 million for the month.
- Corporate Income Tax (positive \$2.8 million) – Gross receipts increased \$7.1 million and refunds increased \$4.3 million.

- Sales/Use Tax (negative \$12.2 million, - 9.1%) – General Fund Gross Sales/Use Tax receipts decreased \$8.2 million and Use Tax deposited to the Road Use Fund decreased \$2.8 million. Refunds issued for the month increased \$1.2 million. General Fund Sales/Use Tax receipts were negatively impacted in January by tax due date issues that should reverse in February.
- Fuel Tax (negative \$10.8 million, - 25.1%) – Gross Fuel Tax revenue decreased \$11.2 million while refunds processed in the month decreased \$0.4 million. January's decrease was due to a deposit timing issue that offset a large December increase.
- Cigarette & Tobacco Taxes (positive \$12.7 million, 138.0%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending January 2008, net revenue from all taxes deposited to State funds totaled \$6.507 billion, an increase of \$461.0 million (7.6%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$285.9 million, 11.5%) – Growth has generally been strong in all three components of Individual Income Tax receipts, withholding, estimate payments, and payments with returns.
- Corporate Tax (positive \$20.7 million, 6.5%) – Corporate Tax has shown strong growth since 2003. The rate of growth has tapered off over the last nine months but remains solidly positive.
- Sales/Use Tax (positive \$51.2 million, 2.4%) – The rate of Sales/Use Tax growth has been volatile over the past 13 months. Local Option Sales Tax deposit and withdrawal timing issues have caused the year-over-year growth rate to fluctuate between 0.1% and 3.9% over that time period.
- Fuel Tax (positive \$6.2 million, 1.4%) – Net Motor Fuel Tax revenue has been flat to slightly positive over the past two years, likely the result of higher fuel prices reducing the growth in fuel demand.
- Gambling Tax (positive \$14.4 million, 5.2%).
- Cigarette and Tobacco Tax (positive \$125.2 million, 126.5%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007.
- Insurance Premium Tax (negative \$35.0 million, - 26.4%) – The Insurance Premium Tax rate is being reduced over multiple years. Calendar year 2007 was the first year all premiums are taxed at the final 1.0% rate. The use of tax credits may also be impacting this revenue source.

Tax Spotlight – Inheritance Tax

The category of Inheritance Tax includes an Inheritance Tax, the Qualified Use Inheritance Tax, the Estate Tax, and the Generation Skipping Transfer Tax.

The Inheritance Tax is imposed under the authority of Chapter 450, Code of Iowa. Tax rates range from 5.0 to 15.0 percent depending on the amount of inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax the estate must exceed \$25,000 in value. Spouses were exempted fully from Inheritance Tax with the passage of SF 356 (Department of Revenue and Finance Tax Administration Act of 1991). Senate File 35 (Inheritance Tax Act of 1997) expanded the exemption to include all lineal ascendants and decedents.

The Qualified Use Inheritance Tax is imposed under the authority of Chapter 450B, Code of Iowa. A qualifying heir for federal tax purposes may forego Inheritance Tax on property used in farming or

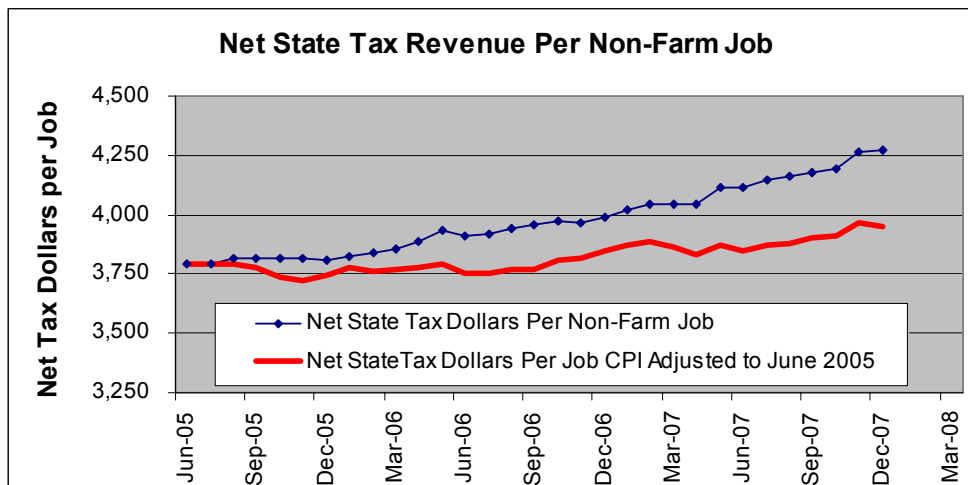
business if they maintain the business for up to 10 years. However, if the farm or business is sold to a non-relative prior to the 10 years, the heir may be required to pay Inheritance Tax.

The Iowa Estate Tax (Chapter 451, Code of Iowa) and the Iowa Generation Skipping Transfer Tax (Chapter 450A, Code of Iowa) are equal to the federal tax credit allowable for the State taxes paid in each of these taxes. Currently the federal Estate Tax credit and the federal Generation Skipping Transfer Tax credit do not apply to estates of descendants who died after December 31, 2004, or before January 1, 2011, thus the State will not receive any revenue from those two taxes until the federal legislation sunsets (December 31, 2010).

In most instances, Inheritance Tax returns must be filed and tax paid by the last day of the ninth month following the death of the decedent. Tax revenue from the Inheritance Tax is deposited in the State General Fund.

Tax Revenue and Employment

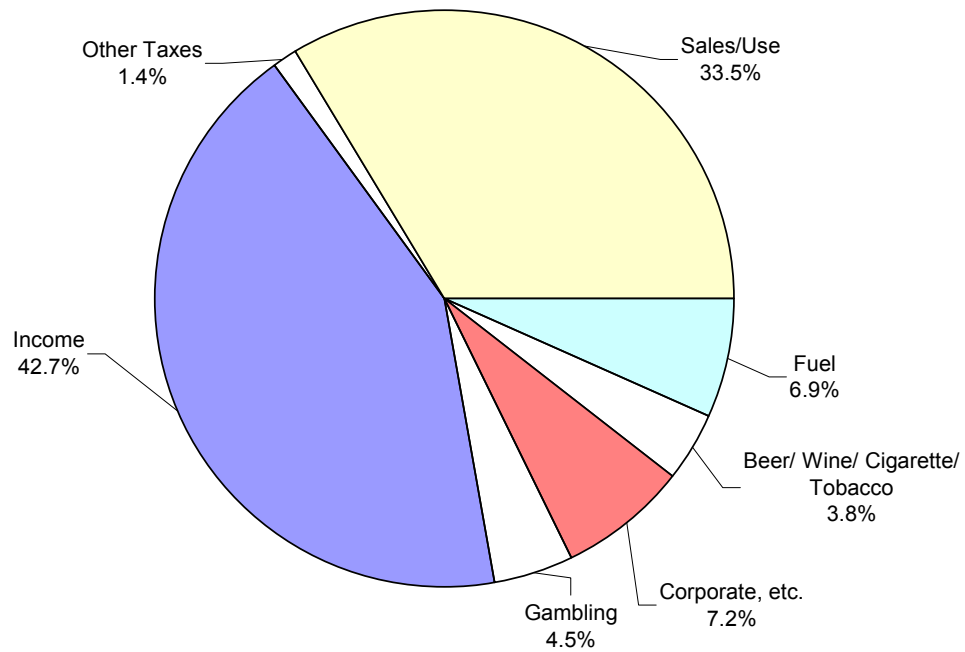
The average reading for Iowa non-farm employment over the 12 months ending December 2007 is 1,522,400, and net State tax receipts over the same 12 months totaled \$6.494 billion, or \$4,271 per non-farm job. This is \$481 (12.7%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 8.0%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.9% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending January 2008

Net Revenue = \$6.507 Billion

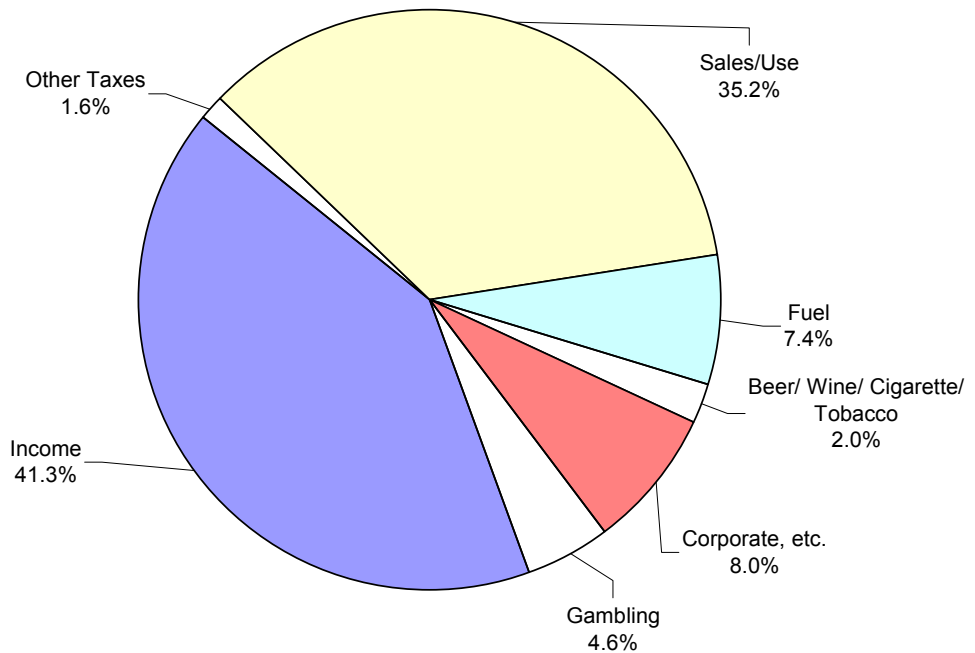
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending January 2007

Net Revenue = \$6.046 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of January 2007	Month of January 2008	January \$ Change	January % Change
Banking	\$ 34.9	\$ 30.8	\$ - 4.1	-11.7%	\$ 5.0	\$ 3.5	\$ - 1.5	-30.0%
Beer & Wine	20.1	20.6	0.5	2.5%	1.9	1.9	0.0	0.0%
Cigarette & Tobacco	99.0	224.2	125.2	126.5%	9.2	21.9	12.7	138.0%
Corporate Income	316.7	337.4	20.7	6.5%	24.9	27.7	2.8	11.2%
Fuel	444.9	451.1	6.2	1.4%	43.1	32.3	- 10.8	-25.1%
Gambling	278.4	292.8	14.4	5.2%	22.4	28.9	6.5	29.0%
Individual Income	2,493.8	2,779.7	285.9	11.5%	293.6	309.2	15.6	5.3%
Inheritance	74.1	74.5	0.4	0.5%	9.9	9.4	- 0.5	-5.1%
Insurance	132.7	97.7	- 35.0	-26.4%	0.0	0.2	0.2	0.0%
Other Taxes	4.6	0.1	- 4.5	-97.8%	1.1	0.2	- 0.9	-81.8%
Real Estate Transfer	18.3	18.3	0.0	0.0%	1.5	1.3	- 0.2	-13.3%
Sales/Use	2,128.0	2,179.2	51.2	2.4%	133.7	121.5	- 12.2	-9.1%
Total Net Taxes	\$ 6,045.5	\$ 6,506.5	\$ 461.0	7.6%	\$ 546.3	\$ 558.0	\$ 11.7	2.1%
Gross Tax & Refunds								
Gross Tax	\$ 6,698.6	\$ 7,182.4	\$ 483.8	7.2%	\$ 570.3	\$ 590.7	\$ 20.4	3.6%
Tax Refunds	\$ - 653.1	\$ - 675.9	\$ - 22.8	3.5%	\$ - 24.0	\$ - 32.6	\$ - 8.6	35.8%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,095.6	\$ 5,533.4	\$ 437.8	8.6%	\$ 459.6	\$ 479.8	\$ 20.2	4.4%
Road Use Tax Fund	\$ 690.3	\$ 707.1	\$ 16.8	2.4%	\$ 57.3	\$ 43.9	\$ - 13.4	-23.4%
Non-GF Gambling	\$ 219.5	\$ 232.2	\$ 12.7	5.8%	\$ 22.4	\$ 28.6	\$ 6.2	27.7%
Other State Funds	\$ 40.0	\$ 33.9	\$ - 6.1	-15.3%	\$ 7.0	\$ 5.9	\$ - 1.1	-15.7%
Local Option Taxes *	\$ 626.6	\$ 689.6	\$ 63.0	10.1%	\$ 46.5	\$ 50.3	\$ 3.8	8.2%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (bank) Tax: Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

Beer & Wine Tax: Tax on beer is deposited to the State General Fund. The tax on wine is deposited to the Liquor Control Fund and a Department of Economic Development Fund. Prior to FY 2008, a portion was deposited to a Fund controlled by the Department of Agriculture and Land Stewardship.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All Corporate Tax is deposited to the State General Fund.

Motor Fuel Tax: All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual Income Tax: Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All Inheritance Tax is deposited to the State General Fund.

Insurance Premium Tax: All Insurance Premium Tax is deposited to the State General Fund.

Other Taxes: Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

Real Estate Transfer Tax: Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% of its share to the State General Fund and 5.0% to the Shelter Assistance Fund.

Sales/Use Tax: General Sales/Use tax is deposited to the State General Fund, while most vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.